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Chairman, Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission

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Dear Chairman Spitzer –

This evening we hosted the Commissioners Public Comment sessions in Tubac concerning the Arizona-American Water Company rate case. I made two presentations and provided the handouts.

During this session, I presented the attached paper concerning this water case.

After the completion of the entire agenda for these hearings, I requested a “call to the public” where I presented another paper concerning pipeline safety. This paper was in response to Commissioner Mayes recent letter of 23 October 2003 where she requested public meetings to discuss this issue. These comments did not interfere with the purpose of these hearings, however, the pipeline issue is of local importance to Tubac and those in McGee Ranch, as mentioned in my paper.

Since letters or statements from those who live on or next to the natural gasline were requested, I will forward them to your office. One individual, from Issue 1, venting natural gas, is out the state at this time so it maybe a few weeks before I can gather a copy of their letters and statements.

Sincerely,

Marshall Magruder
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18 November 2003

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NOV 20 2003

BEFORE THE ARIZONA CORPORATION COMMISSION

For the Open Meeting held this date in Tubac Arizona

Comments on the Proposed Rate Increase for Arizona-American Water Company, Tubac

FIRST ISSUE – UTILITY RATE INCREASES, WHY?

American business are **leaders in developing efficient work processes** to lower costs and dominate that business environment.

Of all the industries, the utility industry has proven to be amongst the **least efficient**. With less than one third of the energy used by the \$1 trillion dollar electric industry, delivered to customers, we need to "open our eyes" to just plain effective business management.

This water case, with a "cross the board" rate increase is another accounting trick, which failed to look at the real "cost of doing business" issues. Let's explain this.

A **zero-based budget approach** is essential to determine the "cost" of each step in the business process model. Cost components change with time, they are not all "flat." Without examining each cost element, by each company, then did the American-Arizona Water Company fail to properly assess the detailed impacts of doing business?

More importantly, this approach defeats efficient management and should not be tolerated by the Commission. Make AAWC show you their numbers, by each cost element category. Then make AAWC **prove to you the actual, measured, and documented cost of that cost element category**. "Shot-gun" approaches are used by lazy and ineffective management teams.

Public service companies have all their books open during ratemaking cases. They need to be audited to the level necessary to **verify and validate** that their charges are (1) **prudent**, (2) **fair**, and (3) **reasonable**. A fair and reasonable return should be awarded for efficient companies.

Most utilities have never heard of **ISO 9000**, the integrated management and business process program for quality organizations. It's applicable to every company in this country, including the water utility business. The implementation of the 20 different business processes in this world-wide (a la "Deming") program, will improve corporate efficiency at all levels by all departments. ISO 9000 goes for **"self-improvement" mechanisms**, embedded into the day-to-day operations, to foster overall corporate improvement. It is obvious by just the "cross the board" approach in this case, that ISO 9000 has not been implemented at Arizona-American Water Company.

Based on this, then **ISO 14400**, for **Environmental Management** practices, surely has not been considered. Such practices, when implemented by a water company, involve all environmental management decisions inside this company and their external impacts. This company needs to consider establishing ISO 14400, in addition to ISO 9000.

If so, the next rate case will be different. Why should a properly managed company requesting any rate increases, when efficiency results in rate "decreases. **When did this last happen in Arizona?**

I have worked in companies where these have been implemented, including a Macolm Baldrige National Quality award organization. The differences are instantly amazing. You find a totally different atmosphere towards working as a team. **What's going on now is mismanagement.**

Please work these details and have the "best and brightest" companies **propose rate reductions** the next time around, as my second issue, discusses the impacts of this problem.

SECOND ISSUE – IMPACTS OF THIS UTILITY RATE INCREASE

We have had a series of recent utility increases in Santa Cruz County. These include the following:

Natural Gas rate increase	20.9%
Electricity rate increase	22.0%
MEDICARE	13.9%
Trash charge per car load	100%
Proposed Water rate increase	86% to possibly 35%

Lets look at what a **fixed income person, retired on social security** received to compensate:

Social Security COLA	2.1%
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Again, with a fixed income, **something is not going to be on the dinner table for these folks!**

"ENOUGH IS ENOUGH"

Please fix these problems, **don't just pass on increase after increase without making them work**, if they have poor business practices and mismanagement.

Sincerely,

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